

2021

South Australian Wine Industry Snapshot



SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED





2021

South Australian Wine Industry Snapshot

In this, the fifth year of the South Australian Wine Industry Snapshot, we look at the impact of COVID-19, China wine duties, labour availability and the strategies to overcome these challenges.

We surveyed 116 micro (<\$1m), small (\$1 to <\$5m), medium (\$5m-\$20m) and large (>\$20m) South Australian wine businesses online and over the phone.

We asked about the biggest challenges facing the wine industry today and report these insights throughout.

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There are many headwinds for wine businesses as we release the fifth edition of the South Australian Wine Industry Snapshot and continue the strong collaboration of the full service advisory firm Bentleys SA and the South Australian Wine Industry Association.

Positives highlighted in this survey include the 2021 vintage. Government financial support is keeping businesses open, staff employed and providing some balance to the negative impact of dealing with the ongoing COVID-19 pandemic. Operational restrictions on businesses have changed regularly. Business models have adapted to provide for greater sales through e-commerce and building export relationships without the ability to travel.

With the imposition of high trade duties, the China wine export market has significantly contracted and will be severely impacted for at least the next 5 years. This has negatively impacted many wine businesses contributing to the Snapshot. Those businesses will be seeking to grow existing export markets or explore new markets on a local and national level. Every market has its own set of challenges and barriers to entry, including intense competition. Businesses will need to showcase wine products that are desired by consumers. There are positive signs of growth but these will need to be sustained.

The importance of a suitable supply of labour for business is well known, and is a current issue for wine businesses, with labour in short supply for

many in regional areas. The roles in short supply are the most important jobs in the wine industry. Labour supply has become a significant challenge compared to the 2020 Snapshot, no doubt exacerbated by the closed international border and the continual opening and closing of state borders.

As businesses confront all of these issues, there is a noticeable drop in business confidence and an increase in concern about the immediate future prospects for businesses within the wine industry. Many are taking time to reflect on the state of mental health across the business in these changed times.

It is positive to see the strong level of investment by wine businesses in innovation, and adapting new processes to achieve strategic goals. The recognition of the importance of marketing, planning and training during these times is also positive for business. Increased continuity planning has been seen over 2021, providing a road map for responding to the daily challenges.

Profitability has never been more important and many 2021 Snapshot respondents have that focus.

The wine industry has demonstrated strong resilience over many decades, we are an industry that will respond to challenges and has invested for the long term.



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This is a challenging, yet very interesting time for South Australia's wine sector.

Now is a time to invest in innovation and consider new e-commerce strategies to engage profitable new customers. This should always be part of your strategy.

Last year I wrote that "no one could predict events of 2020". I have since learnt that many people actually "predicted" something similar.¹

The issue is not whether (or when) a major issue arises but how we prepare for whatever does happen. All five of our Wine Industry Snapshots have had a common theme of opportunity. Improve systems, results, resilience and adaptability, and businesses will thrive.

Business strategy must be both dynamic and flexible. We must have enough information to assess both our risks and opportunities, and constantly evolve.

- What will the sales, stock, profit, cashflow and long term impact of losing a major market look like?
- How will investment of time and money impact my long term business goals and what is the opportunity cost?

The romance of the wine industry is why we love it but we can't lose sight of the end game – profitable and sustainable business. Businesses must work with their advisors and be fully informed.

20/21 has seen much evolution, innovation and adoption and I hope this momentum continues.

E-commerce, online meetings and agtech are great efficiency measures people have adopted, however they are not new opportunities. Why hadn't we adopted them anyway and how will we keep the momentum beyond COVID-19?

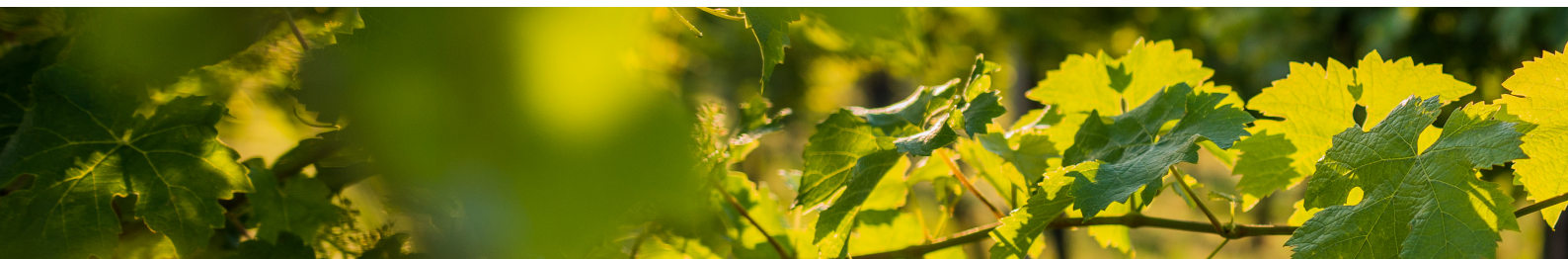
Adapting both strategically and operationally must continue. One day there will be another big problem (hopefully no pandemic for a while). We must keep evolving, assessing risk and planning for business continuity.

South Australia's wine producers must be ready to ride out any problems and take advantage of the opportunities these problems generate.

Many people are expecting a second big vintage and trust the market will continue to change to accommodate problems such as over-supply. Diversifying export markets will be one of the key changes we anticipate. Working with well informed advisors and quality business and financial information will future-proof businesses for the years ahead. I look forward to our next Snapshot and the opportunity to review what has evolved.

1. Including Bill Gates in a 2005 TED talk.

The positive impact of 2021



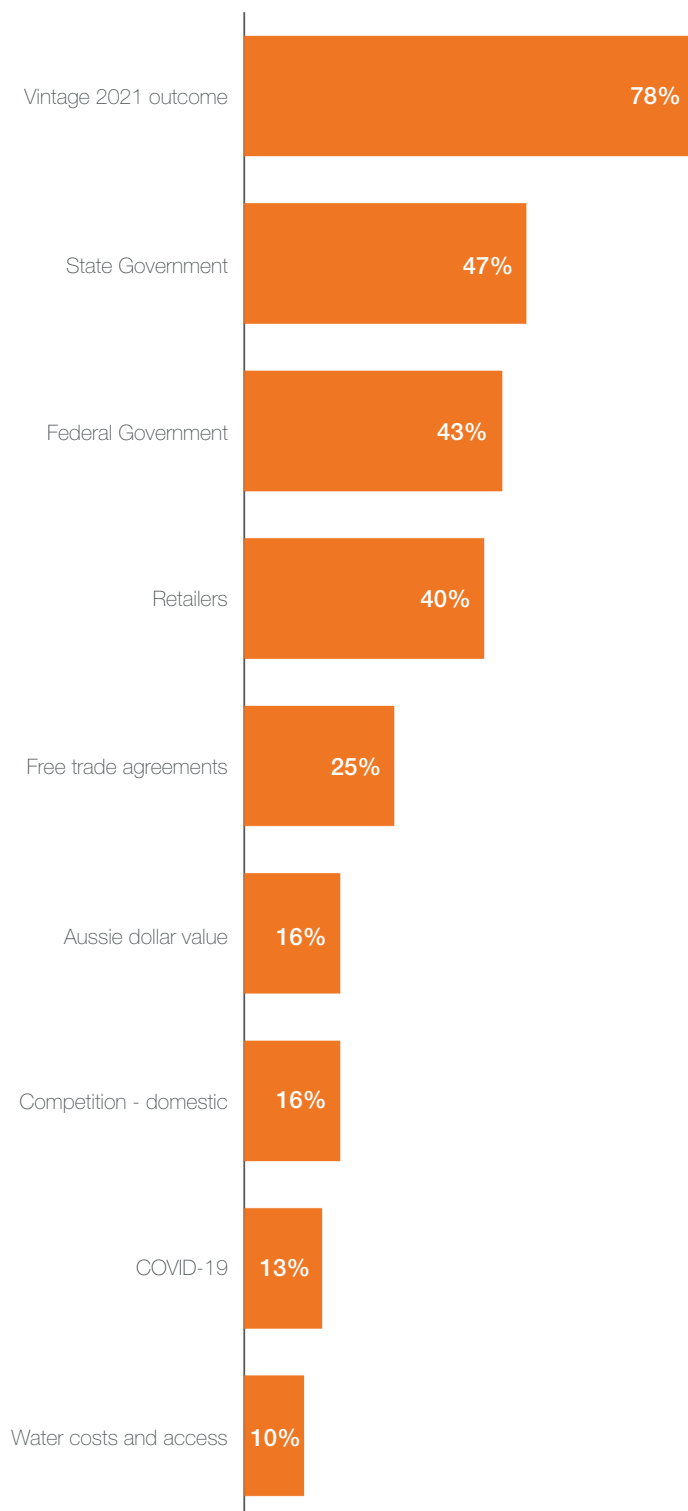
The 2021 vintage saw high yields and exceptional quality across most varieties and styles. This follows two vintages below long-term average yields, and other past events such as the significant bushfires and smoke impact for grape crops in 2020.

The Federal and State Government support for businesses and individuals during the pandemic also played a positive role in 2021. The State Government campaigns driving tourism promotion and regional visitation were positively welcomed by the industry.

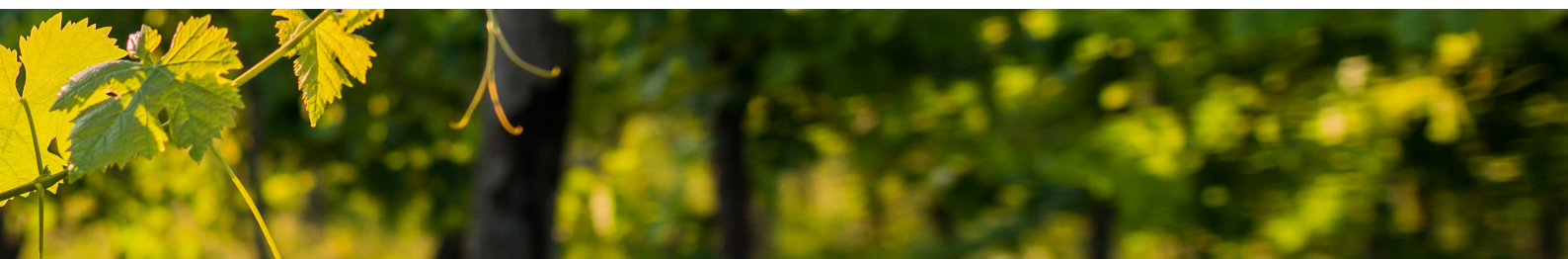
Any opportunity to address barriers to market entry will prove positive for exporters. The Federal Government is progressing a number of trade agreements with countries of interest including the recently concluded trade deal with the United Kingdom. Free trade deals had the greatest positive impact on businesses with revenue greater than \$5m. These businesses also had the highest level of engagement with the China market, therefore seeking to diversify into other markets to replace lost sales.

Interestingly, some businesses reported COVID-19 as a positive, we assume because of the generation of new lines of business, government support and more local travel and visitors in some regions. Water costs and access was noted as a positive by some businesses, which we understand is related to a reduction in water costs and other projects coming to fruition.

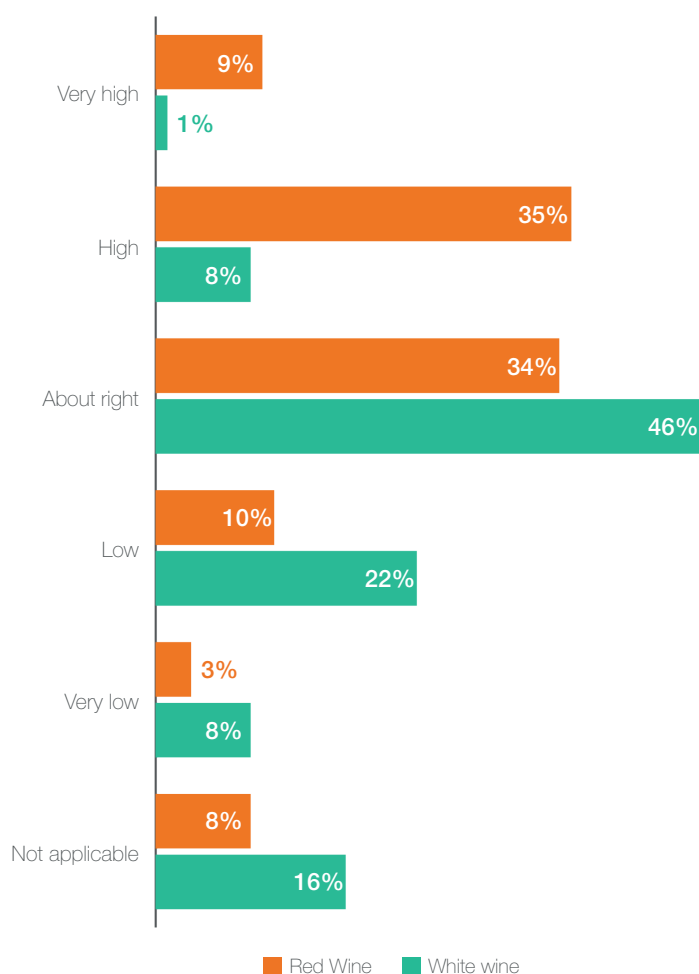
TOP RESPONSES



What this means for your business



INVENTORY LEVELS



While the high yielding 2021 vintage is a significant improvement since 2020, this could negatively impact already high inventory levels. With just under half of businesses reporting high levels of red wine, this effect would be widespread. White wine may be positively impacted with more reporting the right amount of inventory compared to last year (+18%). Inventory management will be a priority.

With COVID-19 limiting tourism and the China wine duties impacting international trade, it is unsurprising that businesses will be focusing on market penetration (62%) to address their stock needs.

However, in an industry that is increasingly competitive, penetration will need to be complemented with other strategies. This is why we see a focus on product development (45%) and diversification (41%). Innovative products will help increase market share. While, this holds some risk, it may help overcome the increased domestic competition and the loss of the China market by reaching new demographics.

PRIMARY BUSINESS STRATEGIES

62%

Market penetration
(existing market,
existing product)

59%

Improving profit
margins

46%

Geographic expansion
(new market,
existing product)

45%

Product development
(existing market,
new product)

41%

Diversification
(new market,
new product)

The negative impact of 2021

Export markets proved a huge challenge, though there were also opportunities

China and COVID-19 related issues make up the top four negative impacts of this year, affecting more than two thirds of wine businesses. With wine duties limiting export to China, the biggest wine market, businesses must be able to refocus on other markets including domestic. However, COVID-19, and more specifically the lockdowns, make the domestic market even harder.

The lack of on-premise and restaurant sales due to lockdowns and restrictions has strongly affected domestic sales.

Domestic competition negatively impacted nearly half of wine businesses, meaning loss of the China wine market will be difficult and will take time

to overcome. Businesses found some positives in exploring and/ or revisiting export markets such as UK and US.

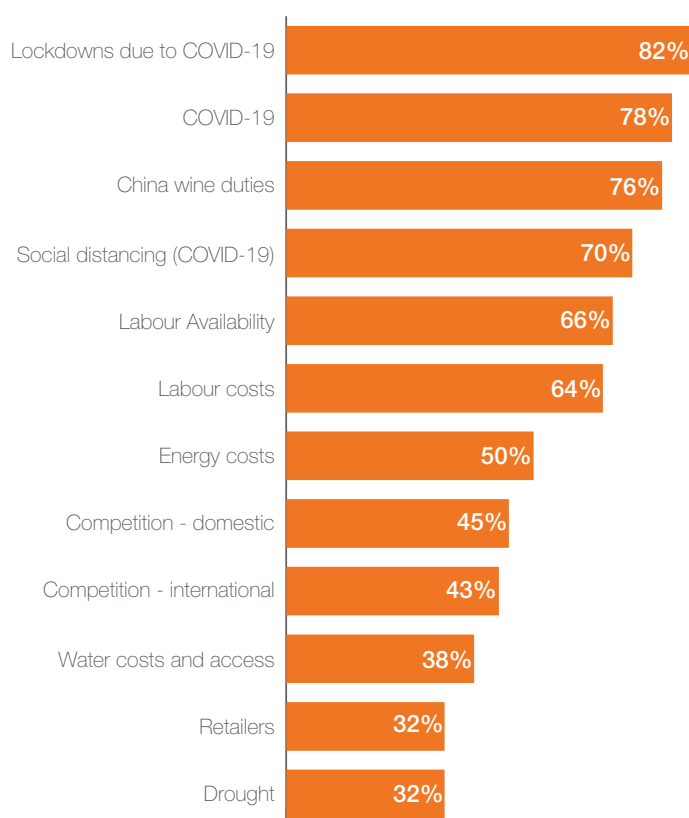
Labour availability is a growing problem. Increasing significantly (+21%) this year, it will limit the ability to service markets and move inventory.

Labour availability will mainly affect businesses with revenue greater than \$1m as micro businesses have the least amount of staff and are less affected by labour availability (47%).

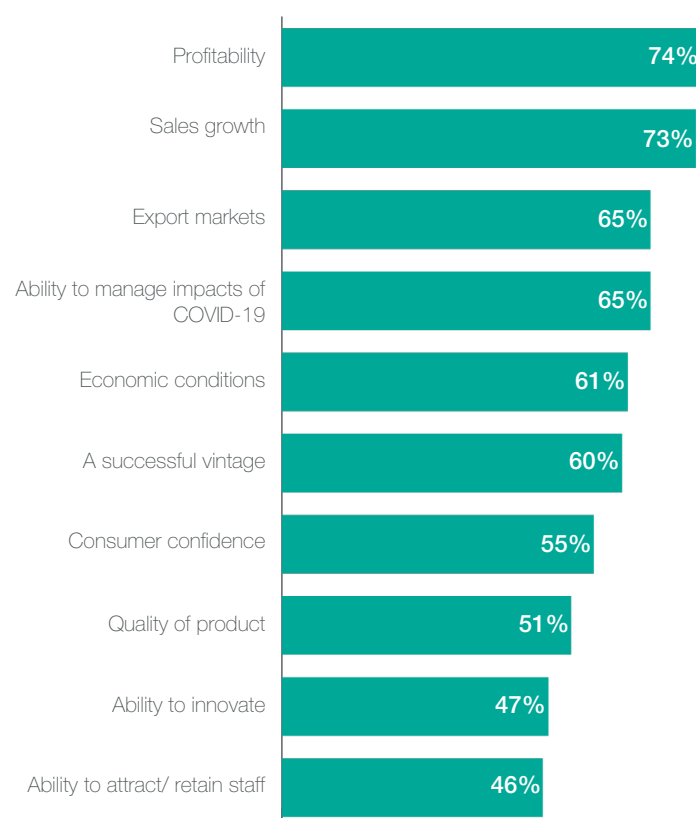
Drought was an interesting negative impact given high 2021 yields however demonstrates complexity of the industry. Planning must consider all issues.

66% of businesses affected by the drought are in the Barossa Valley.

TOP RESPONSES



KEY FACTORS TO SUCCESS



What this means for your business

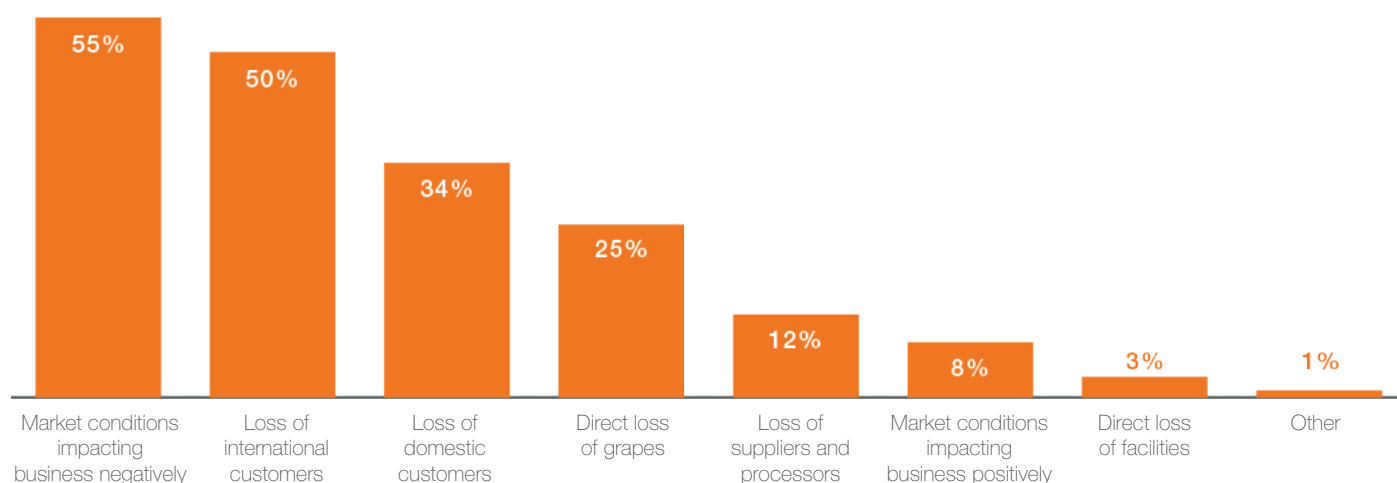
COVID-19, China wine duties and increased labour issues are impacting both international and domestic customers. The loss of international customers is having the greatest affect on large businesses (60%), while micro (36%) and small wine businesses (39%) are the most impacted by loss of domestic customers.

Profitability and sales growth have increased in importance as the effects of the last two years continue to be felt by most (profitability ranked 5th (most important) last year, and sales growth ranked 3rd).

Sales initiatives must be carefully planned and costed in terms of both profitability and cashflow. Cashflow forecasts are vital.

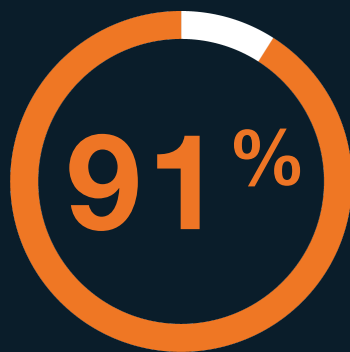
Over half of respondents agree that the external market conditions are adversely affecting their business.

KEY IMPACTS IDENTIFIED BY RESPONDENTS



COVID-19

COVID-19 has directly impacted wineries ability to service both international and domestic markets, and the challenge is ongoing.



Of businesses were negatively impacted by COVID-19.

The ability to service international markets has had the greatest impact among medium and large businesses (both 80%). Large businesses also reported the biggest difficulty in retaining staff (80%) and fulfilling export orders (80%), and attributed this to COVID-19.

Those businesses heavily reliant on exclusive restaurant deals and the ability to serve international markets have felt the most severe impact from COVID-19 related restrictions.

Tourism revenue has been significantly impacted, with local tourism and cellar door increasing while functions and accommodation have dropped.

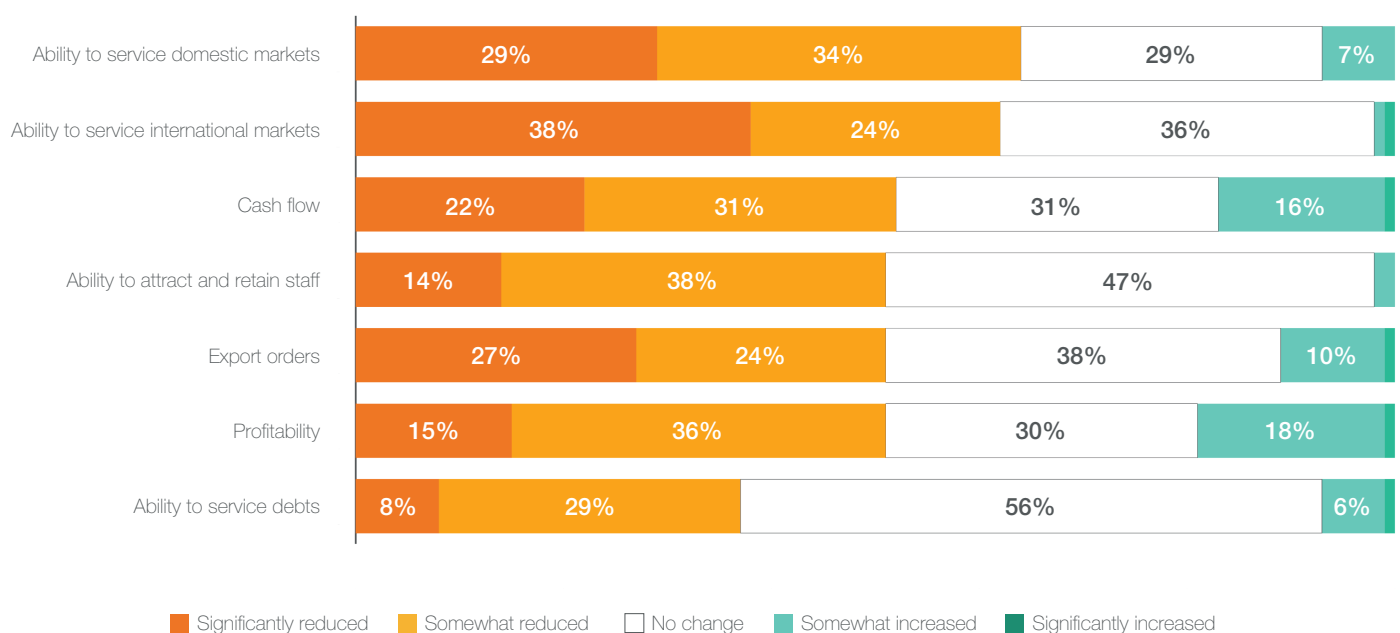
This will drive innovation and new strategies that will offset the inability to service markets and the resultant reduction in cashflow.

Businesses should try to address the change in buying patterns of the domestic market, with more consuming at home.

For the international market, businesses will need to be innovative in their approach to sending samples and video calling instead of a traditional face to face visit.

Cashflow planning will be the key to many businesses survival.

FACTORS IMPACTED BY COVID-19




What this means for your business

Businesses must plan for potentially difficult market conditions in the future. They must continue to be aware of market conditions and adapt to changing circumstances.

Strategic plans and business forecasts must evolve as wineries try to penetrate existing markets, replace loss of markets and improve profitability.

Identifying opportunities that suit your business and understanding the long term drivers of profit and cashflow impact will ensure success.



Your business must keep evolving to move forward



42%

Experienced decrease in sales



35%

Affected by lockdown and border closure



30%

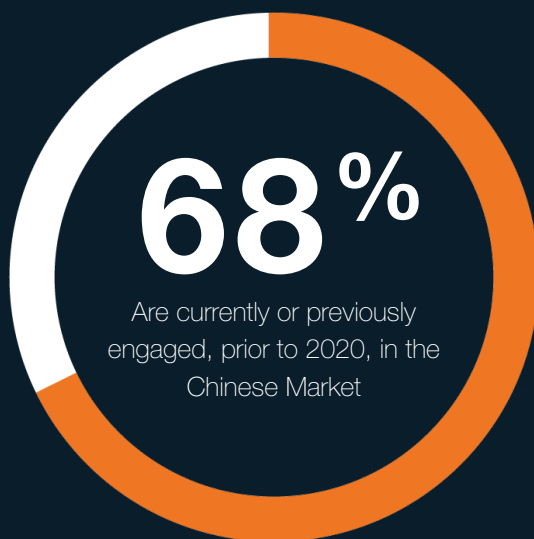
Affected by decrease in visitors and tourists

China wine market

China wine duties, which include up to 220% increase, are having a negative impact on most players in the South Australian wine industry. Most participants indicated that they are currently or have previously engaged with the China wine market. With over half having exited the market or considering exiting because of the duties, more businesses are looking to export to new markets or increase domestic distribution.

Other routes to the Chinese market such as bulk exports and exporting through Hong Kong are being explored.

CONSEQUENCES OF THE IMPACT



27%

Have significantly reduced exports to China

22%

Intend to remain in the China Market

14%

Are considering other routes to the China Market

8%

Are considering leaving the China Market.

What this means for your business

The Government is negotiating and securing free trade agreements to support evolving markets.

The inability to export to China has contributed to a 10 per cent decrease in the value of exports, as of September 2021, to \$2.27 billion. This will take a long time to replace. While other export markets, such as the UK, are increasing in value, the increase has not been enough to offset the overall decrease. Developing other markets will certainly help but businesses will still struggle to replace the full loss felt by the inability to export to the China wine market.

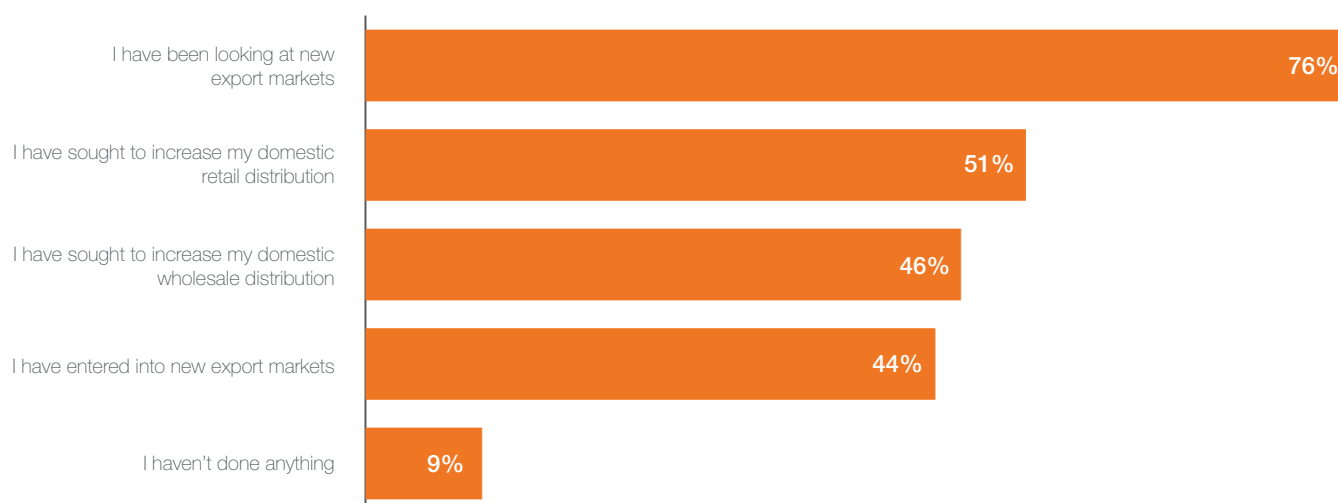
This will place more importance on domestic markets. However, the domestic market is static and not currently showing a lot of growth. It is already burdened by huge competition.

Struggles to effectively service the domestic market will most likely affect micro and small businesses as they are currently experiencing the greatest loss of local customers. Pandemic restrictions including density in hospitality, social distancing and related matters have hit these businesses hard.

Businesses will need to match competition and deliver on what consumers want in the target market by exploring options and opportunities.

Businesses looking to service the domestic market and tap into new markets will benefit from finding a point of difference and investing in innovative products.

ACTIONS TO COMBAT THE IMPACT



Labour

One of the greatest challenges of 2021 was the availability of staff.

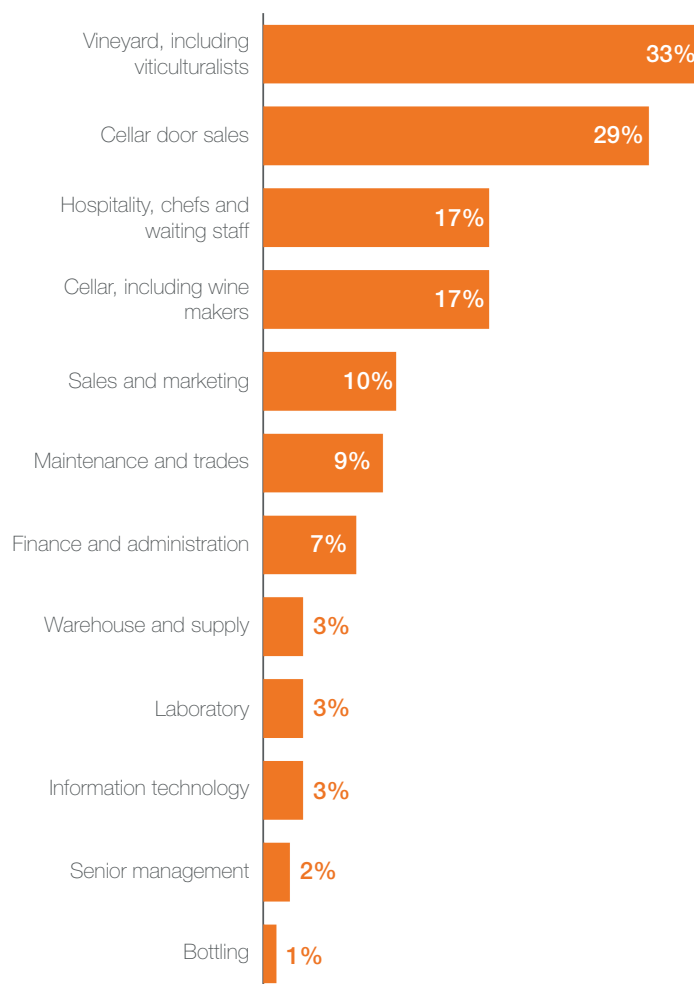
Staff availability affected two thirds of businesses; a significant increase since 2020.

Cellar door sales (55%) and cellar, including wine makers (35%) are impacting medium businesses the most.

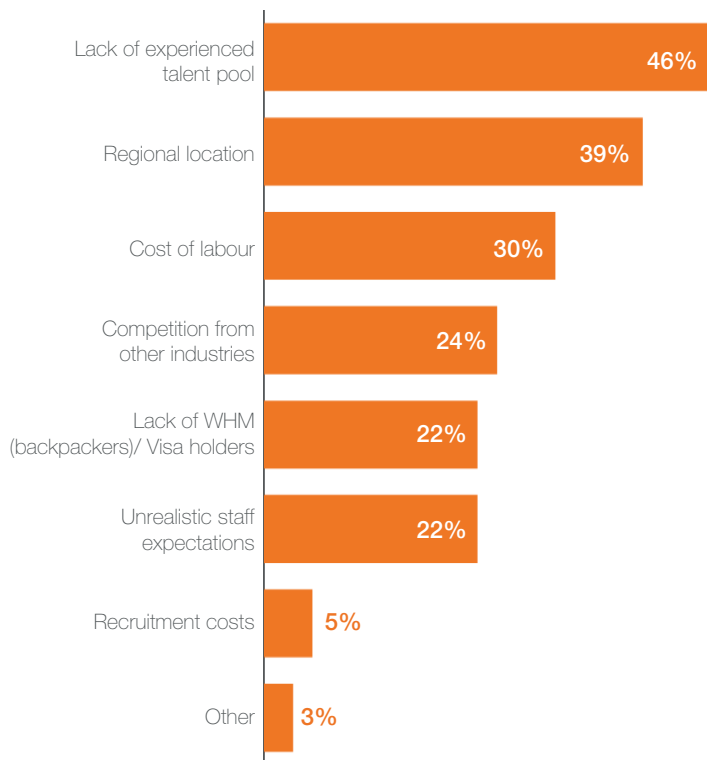
Businesses are struggling to find staff such as viticulturists and winemakers. Those struggling to employ vineyard staff attribute this mostly to lack of experienced talent pool (67%), regional location (58%). The cost of labour was also identified as a significant factor (50%).

This will be a long term issue which will require careful industry planning, training to address industry needs (including areas such as strategy, marketing and financial literacy), and programs such as *Future Leaders* will be vital.

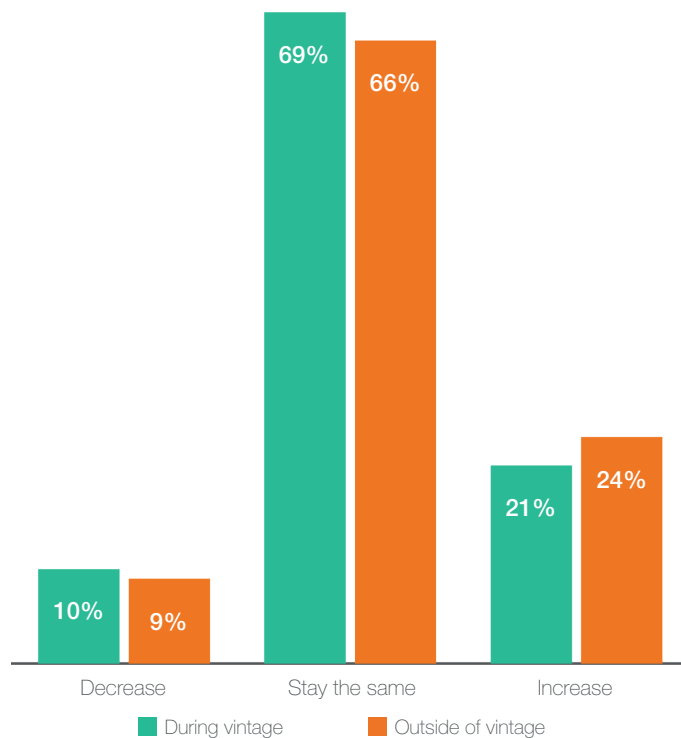
AREAS MOST CHALLENGED TO ATTRACT AND RETAIN STAFF



GREATEST BARRIERS IN ATTRACTING SUITABLE STAFF



CHANGES TO FTE STAFF EXPECTED IN 2021/2022, COMPARED TO 2020/2021



Despite these challenges most desired employment levels remained unchanged compared to 2020. Small businesses are driving the expected increase in staff outside of vintage with 41% saying they want to increase staff numbers.



Business sentiment and well-being

Compared to prior years, 2021 sees more worried businesses.

In 2020 half of respondents indicated that they were ‘somewhat worried’.

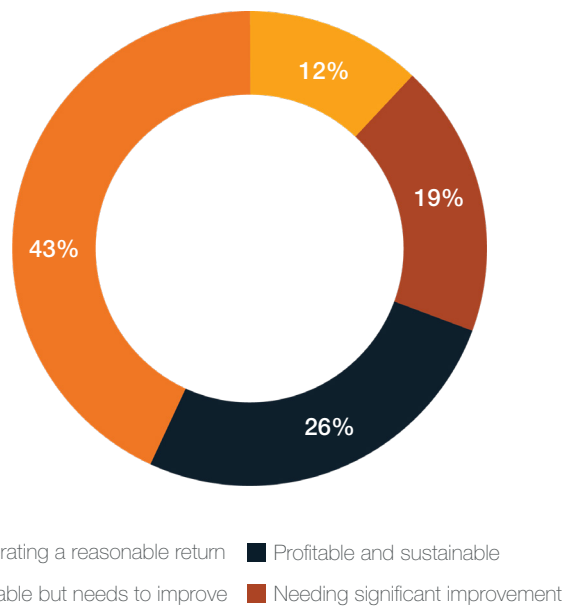
In 2021 overall concern has increased to 56%, with more also indicating they are ‘very’ and ‘extremely worried’ (+19%).

All of the ‘extremely worried’ businesses are small businesses and they make up most of the ‘very worried’. They have less options for export and are feeling the affects of the increased domestic competition.

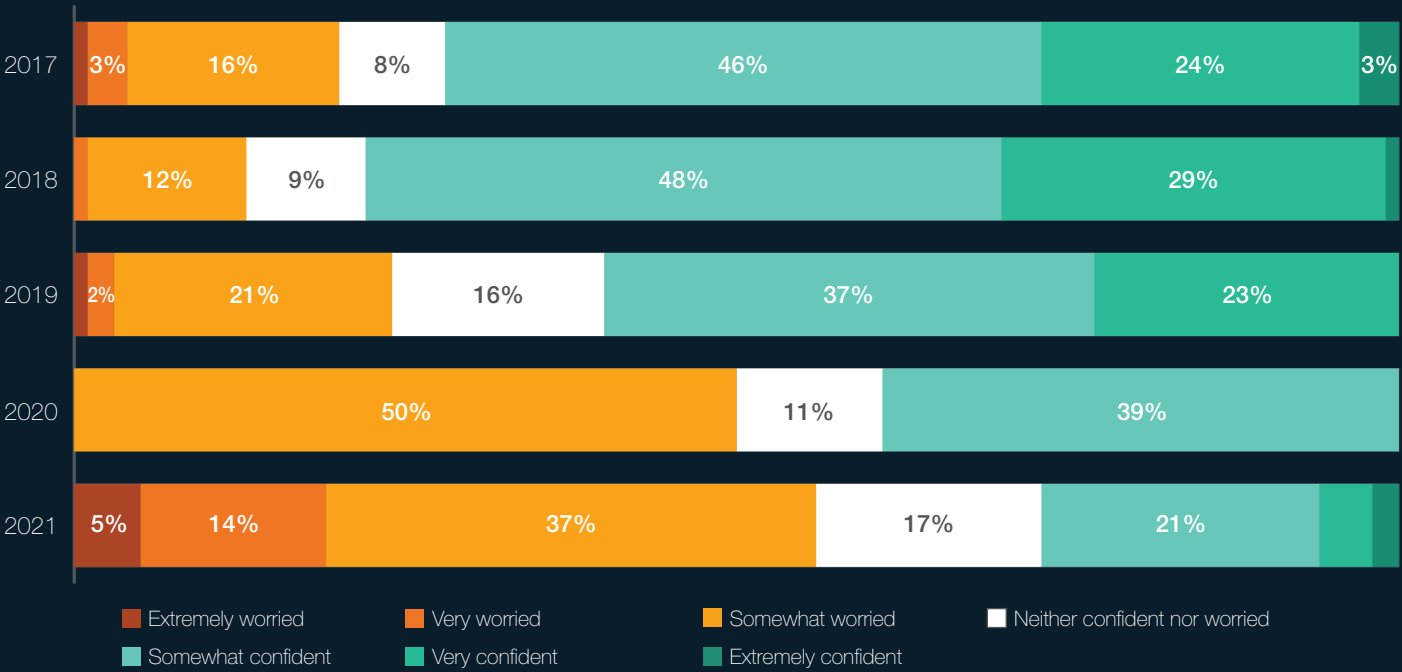
Small businesses are needing the greatest help to safeguard the health of their business and improve their business confidence.

Small businesses were more likely to indicate the health of the business needs significant improvement, with nearly two thirds indicating there needs to be some level of improvement in profitability.

HEALTH OF BUSINESS



LEVEL OF BUSINESS CONFIDENCE



What this means for your business

Reasons driving worried businesses align with the identified negative issues of 2021.

COVID-19 and China wine duties, are at the top of the list.

The significant decrease in international market size has yet to be offset with other trade markets. Responses indicate that most are worried about general stability in the industry.

There is concern that without continued Government intervention to improve exports the domestic market will not provide enough demand, having the greatest consequences for micro and small businesses.

Lower business confidence is largely driven by China wine duties and the uncertainty about future markets.

More businesses are very or extremely concerned for the wellbeing of staff, increasing again from already elevated levels in 2020.

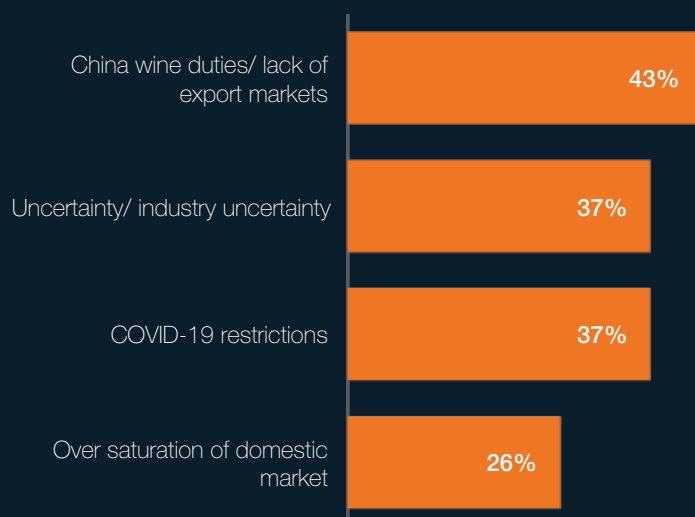
74% of businesses are concerned about well-being, an increase from 2020 (+7%). 'Very concerned' has also gone up (+10%) and 'extremely concerned' (+8%).

It is interesting to note that all business sizes and business confidence levels have been impacted.

Given the many challenges faced by the wine industry in 2021 from COVID-19 related issues and restrictions to the China wine market, mental health was also flagged as a key point of concern for most respondents.

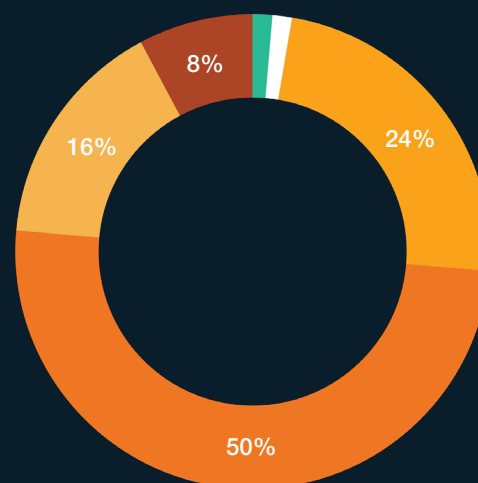
Long term planning, managing workforce and mental health are increasingly important issues in a challenging industry.

WORRIED ABOUT *



* n=65 worried

CONCERN ABOUT HEALTH, SAFETY AND WELL-BEING



Needs more investigation | Not applicable | Not concerned
Somewhat concerned | Very concerned | Extremely concerned

Innovation and evolution

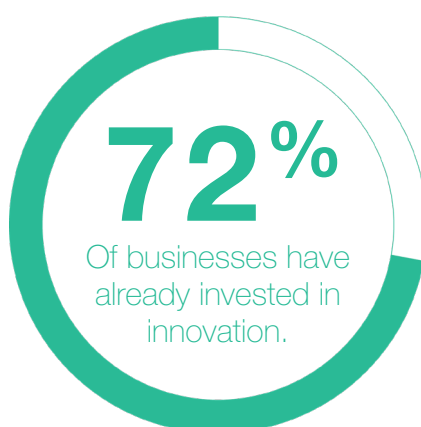
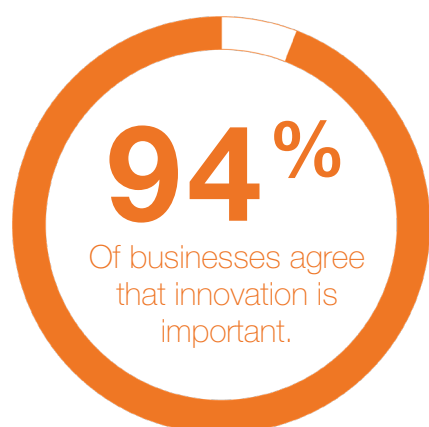
With the challenges faced in the last two years, the industry has been continuously changing. Businesses are prioritising innovation to overcome these challenges with more indicating that innovation is 'extremely important' compared to 2020 (+6%).

Businesses are not only identifying that innovation is important, they are investing in it. While most have made either a small or significant investment, all large businesses who responded are investing significantly (they have the resources to do so). Responses show positive action. Businesses

that see innovation as 'extremely important' have generally already invested in it significantly (50%).

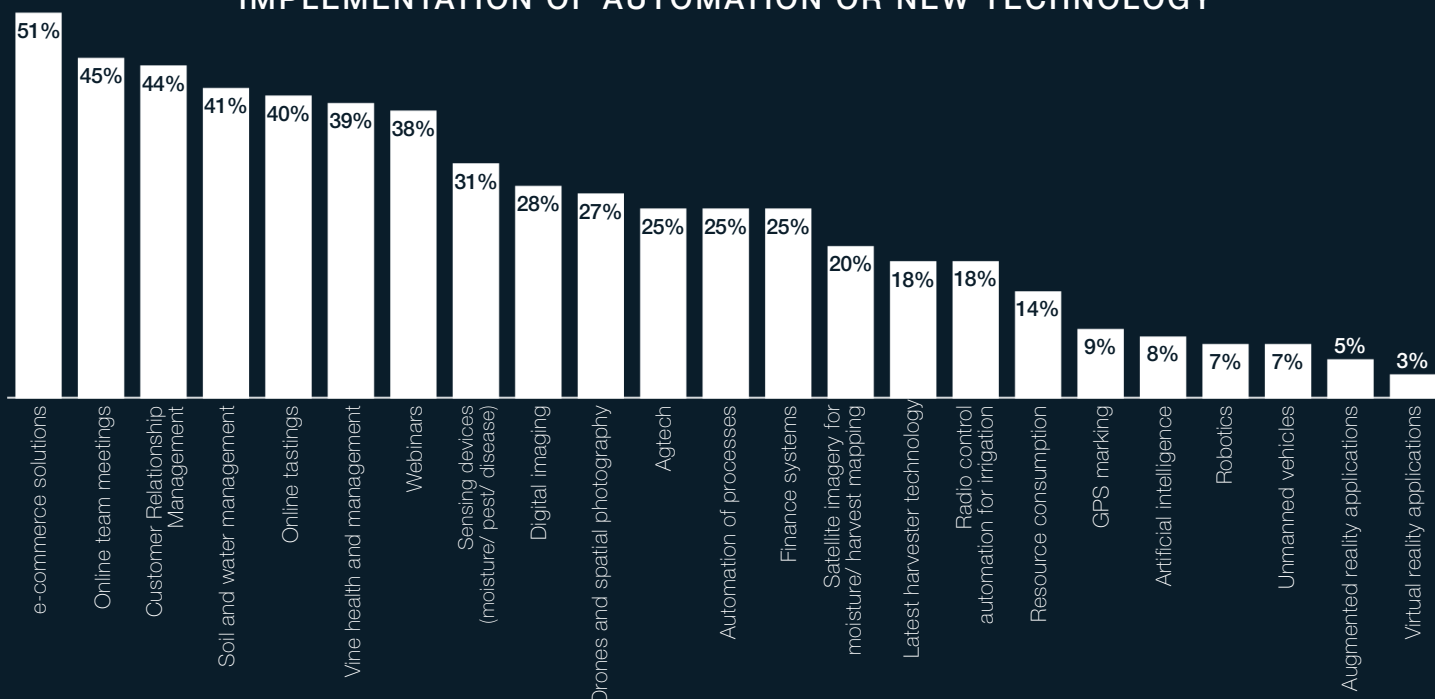
It is clear that the industry has been and is continuing to adopt new processes and will be a key factor in reaching strategic goals.

Industry and market issues will always arise. Success will come from adapting and taking on new opportunities.



What this means for your business

IMPLEMENTATION OF AUTOMATION OR NEW TECHNOLOGY



Lockdowns and associated restrictions impact on sales has businesses looking for solutions.

Unsurprisingly, investments in e-commerce are at the forefront of automation and new technology.

Most businesses (55%) are investing in Customer Relationship Management (CRM). This aligns with the strategy to increase market penetration and counteract the intense domestic competition.

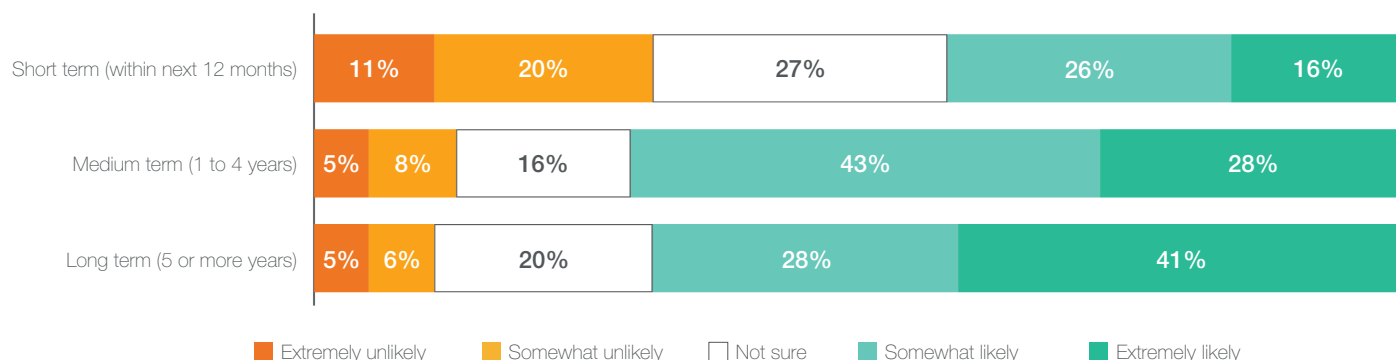
New technology is clearly important to most, with 83% of businesses planning to implement new technology, likely in the medium to long term.

Technology and innovation must be carefully planned, while considering what you are trying to achieve – Yield? Cost? Sales? Quality? Product diversification?

These choices must be strategy driven – plan, understand, manage and monitor choices.

E-commerce solutions represent a key part of many businesses short, medium and long term innovation plans.

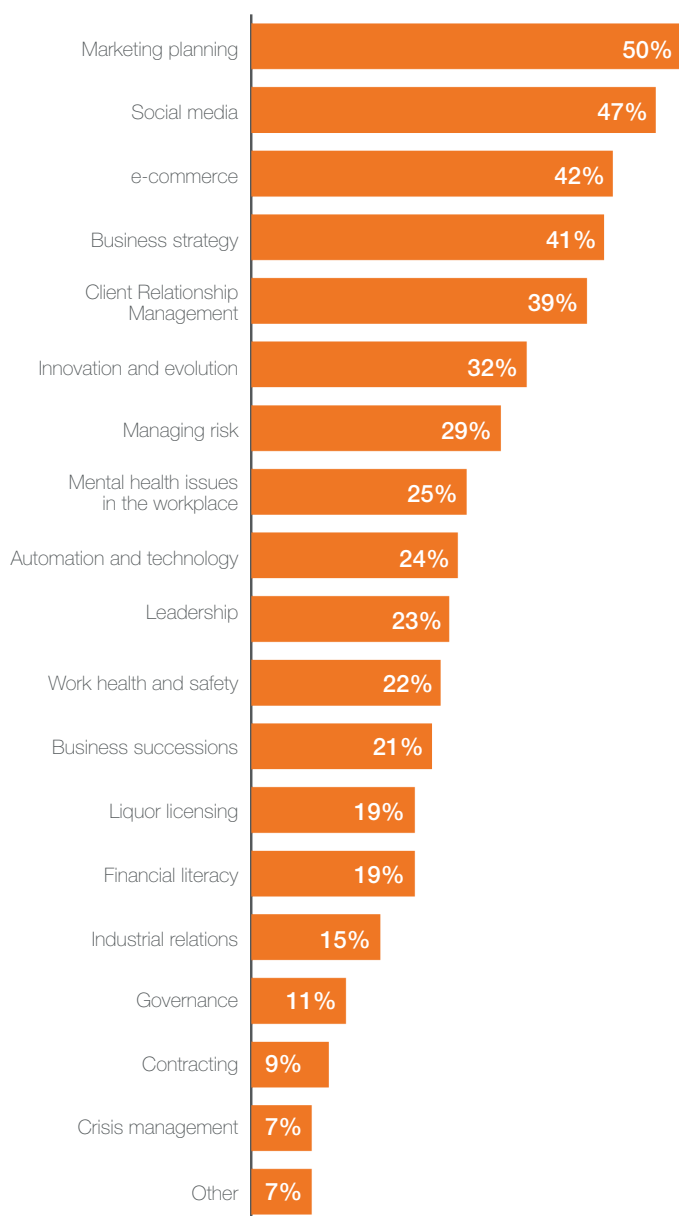
LIKELIHOOD TO INVEST IN INNOVATION



Business focus

The importance of marketing planning, social media and e-commerce training has increased significantly since 2020.

REQUIRED EDUCATION AND TRAINING PROGRAMS



Decision makers must always consider what they want to achieve and where they want the business to go (strategy). They must cost the options, plan, then decide “how”.

Careful marketing will assist in penetrating new and existing markets. While the world is becoming increasingly digital, many will need to ensure they can reach consumers through various platforms. Therefore, businesses are looking to become more experienced in social media and e-commerce.

Importantly, one initiative may not be enough. Most wineries are chasing the domestic market (including e-commerce) and some form of differentiation is key.

Each change and initiative must be monitored and measured - there are no set and forget solutions.

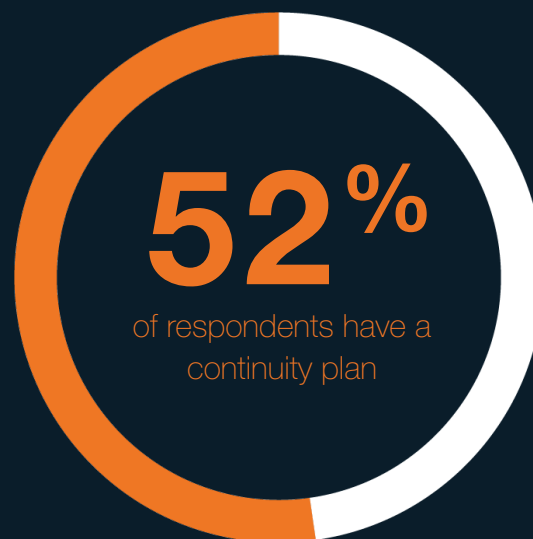


Business Continuity Planning (BCP) has increased significantly compared to 22% in 2021.

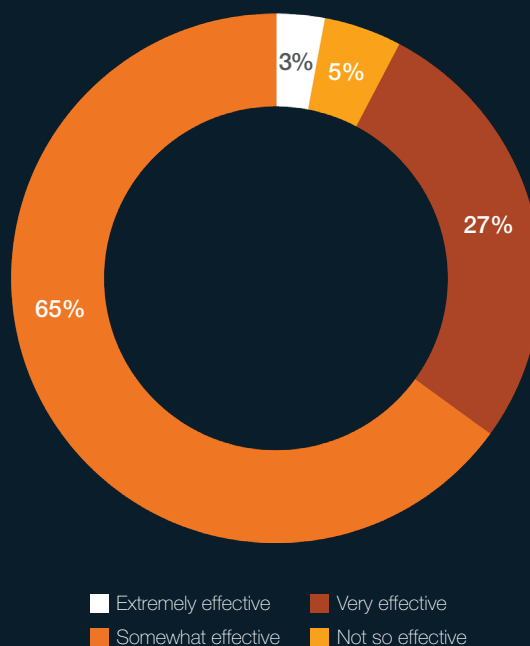
Medium (80%) and large (100%) sized businesses are more likely to have a continuity plan. Among those that do, 95% found it effective in responding to the events of the past 12 months. This should be a greater focus for all businesses, specifically smaller businesses, to help safeguard against challenges moving forward.

A BCP does not have to be complex, but should help both assess and address the impact of future industry issues.

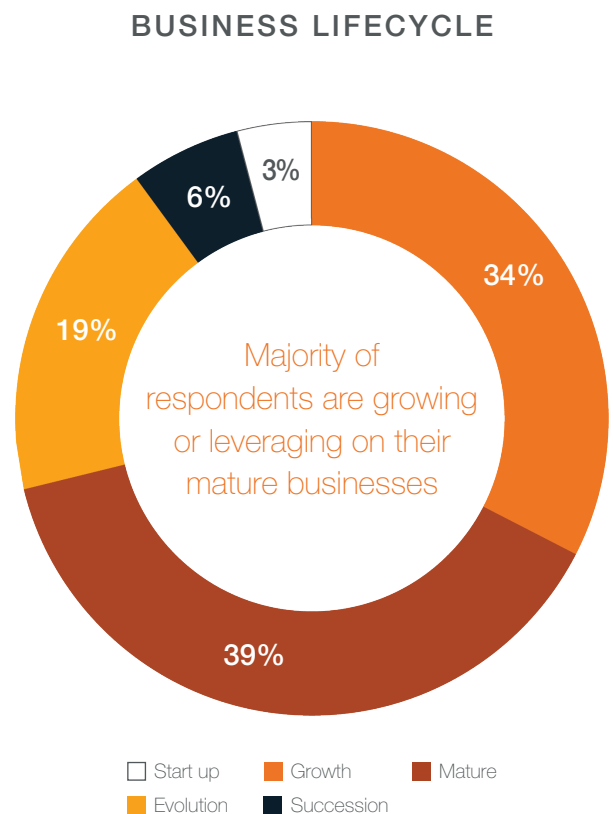
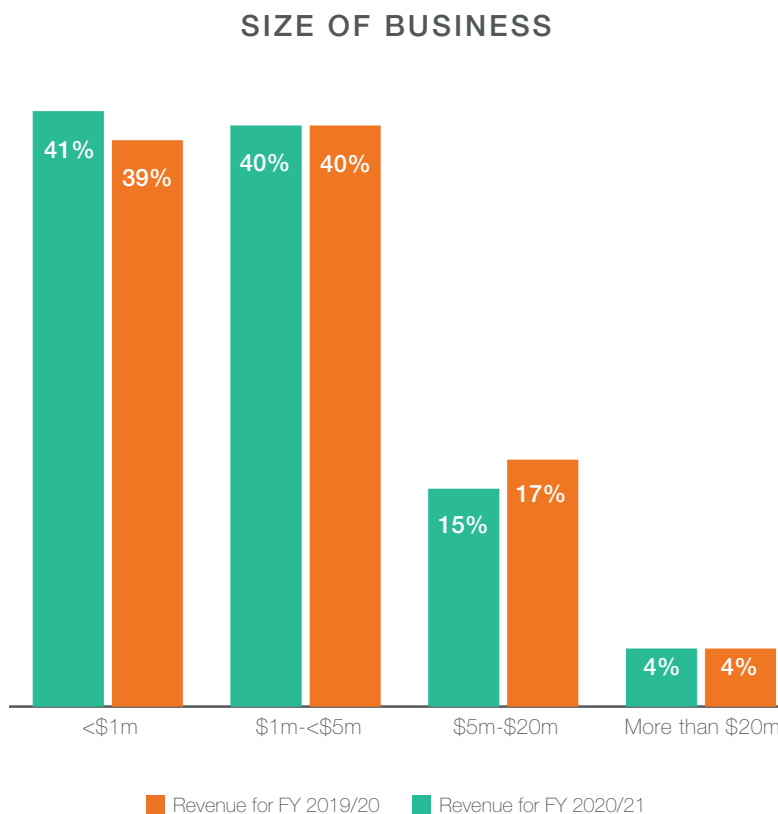
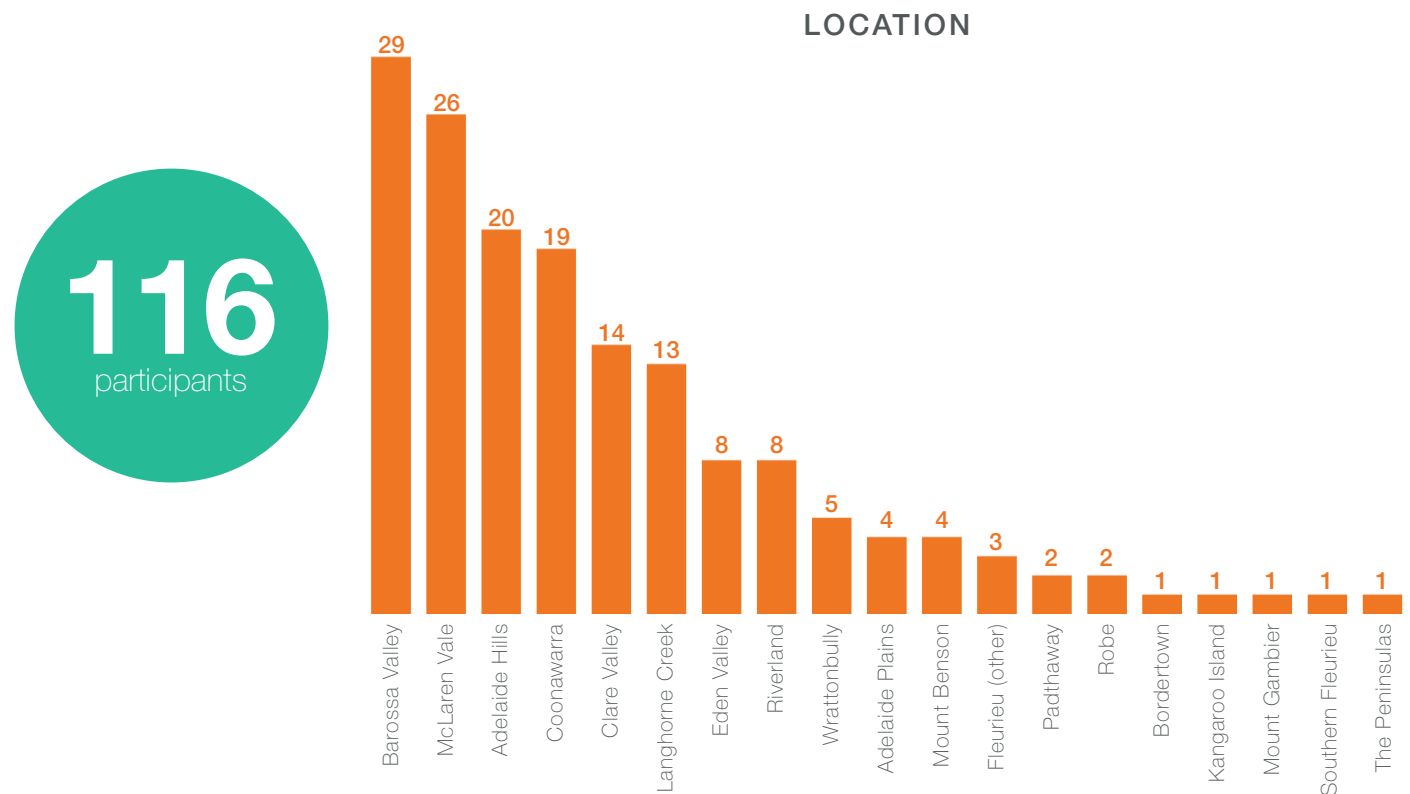
Your experiences will help to adjust and adapt your BCP over time.



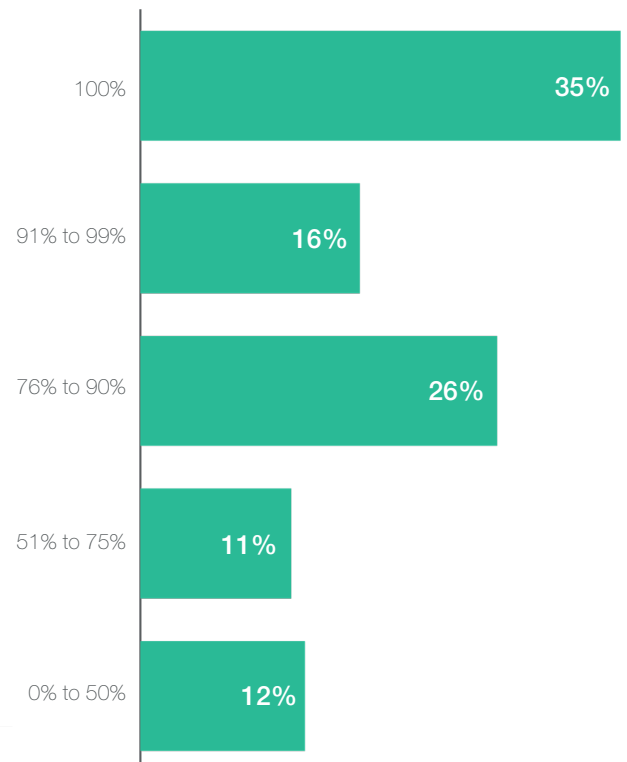
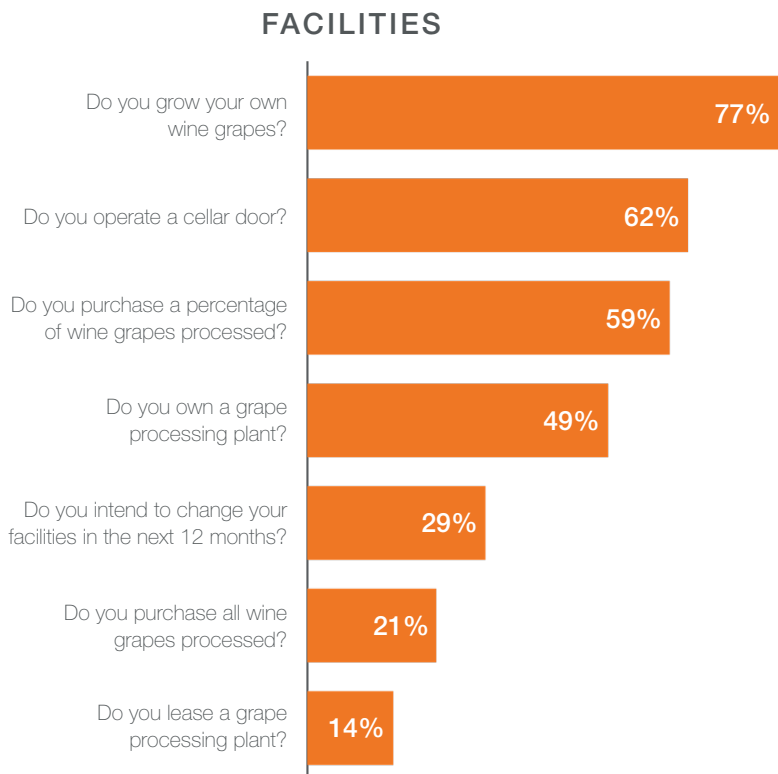
EFFECTIVENESS OVER THE PAST 12 MONTHS



Participant make up

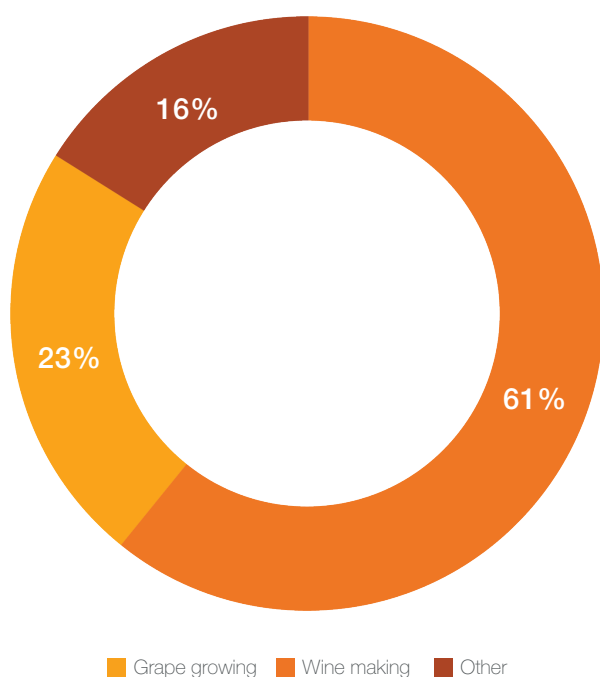


GRAPE PROCESSING PLANT OPERATING AT:

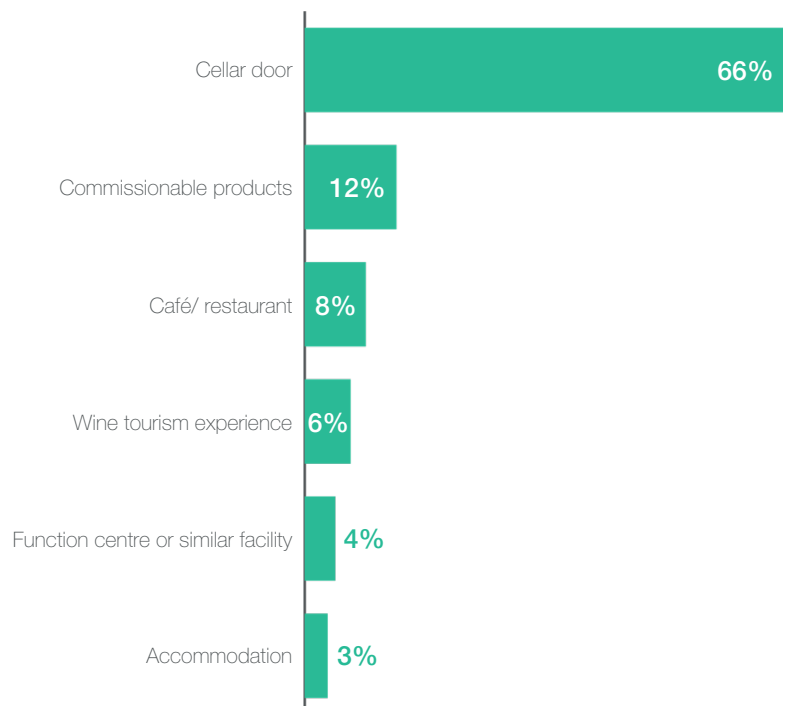


These results were very similar to 2020, though we suspect many cellar doors have recently been upgraded.

SOURCE OF REVENUE

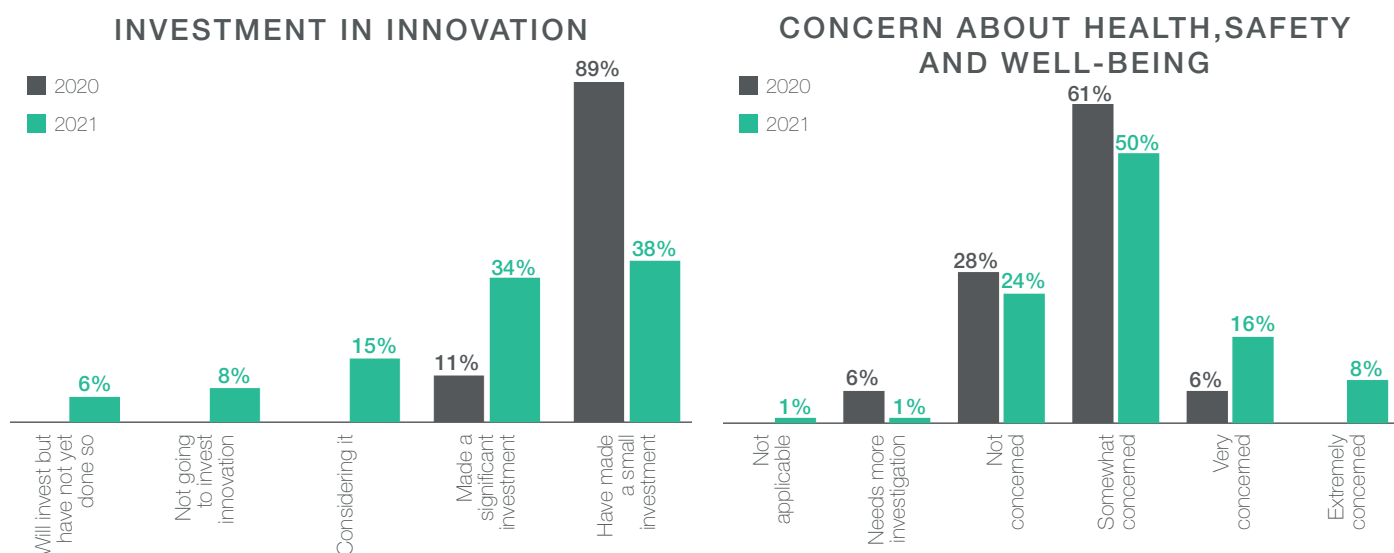
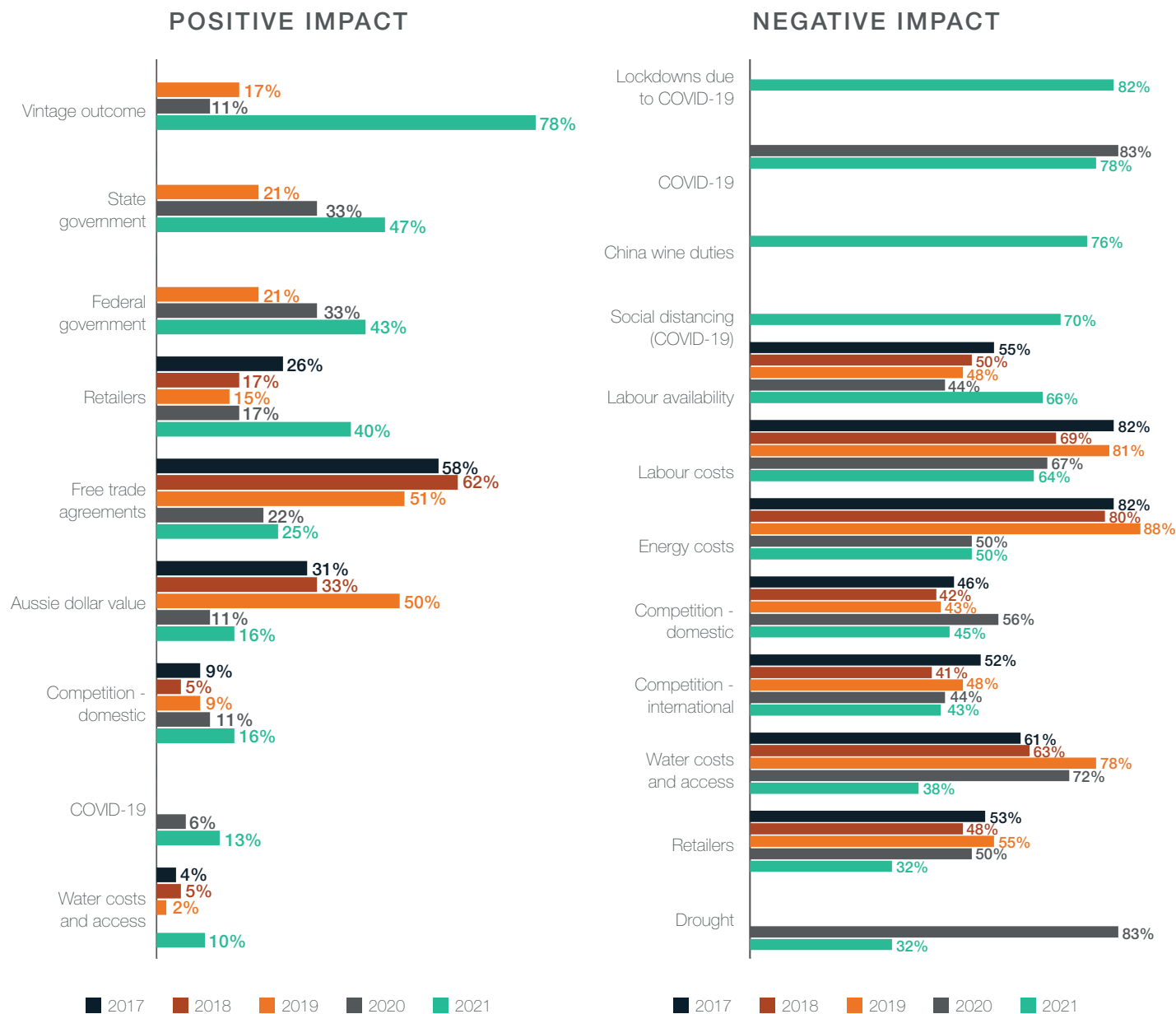


TOURISM REVENUE

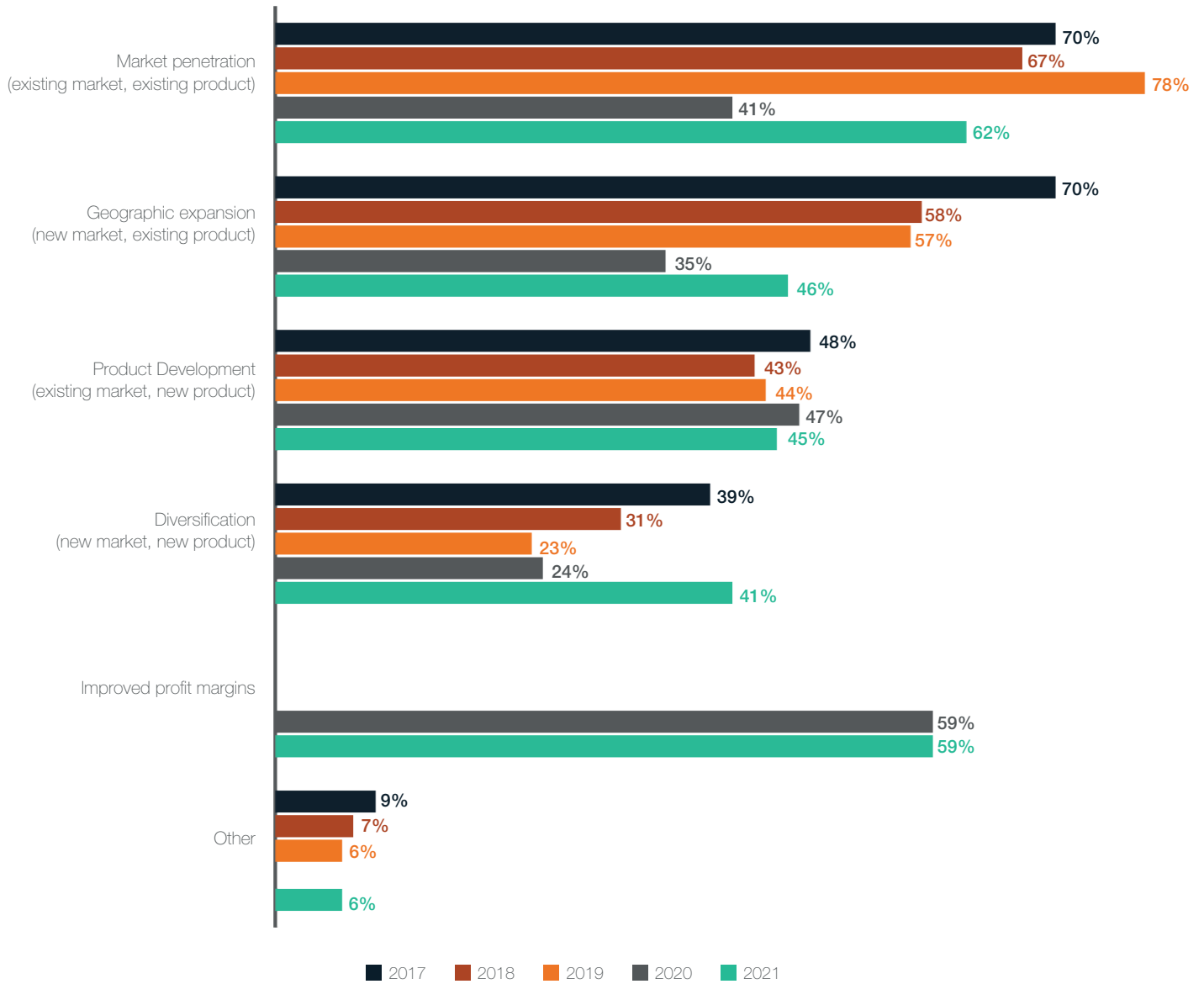


Cellar door has grown strongly as the biggest tourism income earner for participants, with most other tourism experiences trending down on previous years.

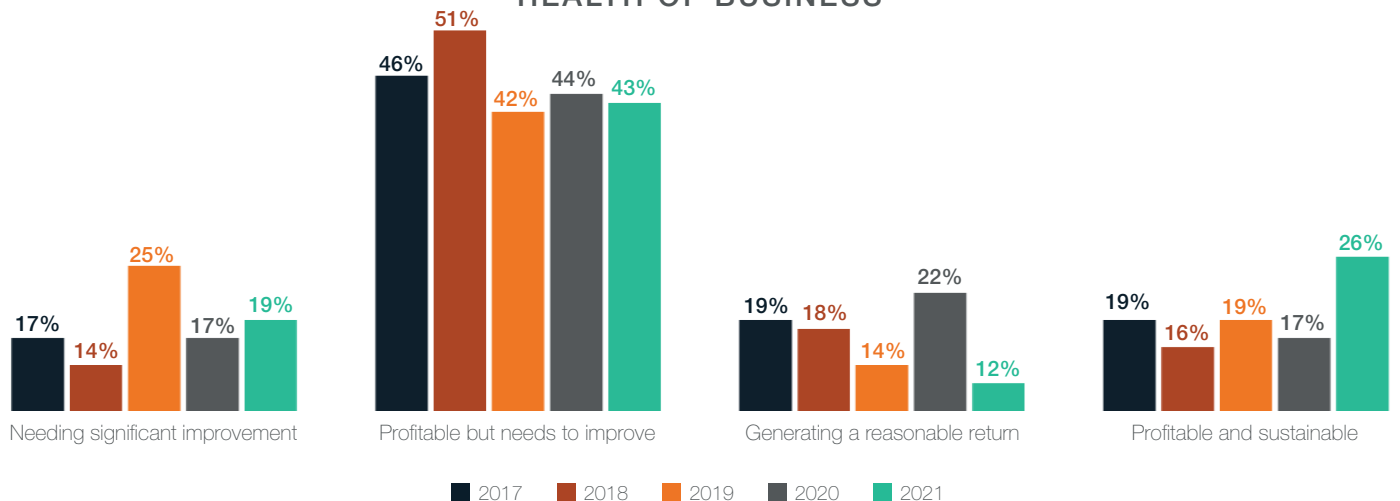
Year on year comparison



PRIMARY BUSINESS STRATEGIES



HEALTH OF BUSINESS



Conclusions



In 2021, wine businesses are still experiencing the negative affects of COVID-19 domestically and internationally.

They now have the loss of the China market to contend with combined with negative impacts of labour availability at an all time high (66%) since the Snapshot began in 2017. Businesses continue to face challenges servicing markets.

Long term planning, careful and evolving strategy including financial forecasts are key to success.

Understanding the impact of market changes and new initiatives will allow decision makers to

understand both the profit, cashflow and long term business impact.

The South Australian wine industry needs to enter new markets to counter these affects, and this is being addressed with the increase in diversification as a strategy.

While the Government has been able to secure new trade deals with the UK, continuing efforts are required to address barriers to market entry and achieving more free trade agreements.

The industry will continue to change, it is how businesses adapt and evolve that will determine future prosperity.

Acknowledgements



The South Australian Wine Industry Snapshot is an annual initiative, proudly presented by the South Australian Wine Industry Association and Bentleys SA.

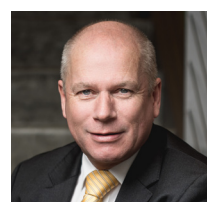
South Australian Wine Industry Association

From its beginnings in 1840, the South Australian Wine Industry Association (SAWIA) is the peak body representing the viticultural and wine making interests of the state.

The association's core functions are to provide leadership and strategy, to represent the industry and lobby on its behalf, and to provide leadership advice and support to South Australian grape and wine businesses, assisting them to prosper within a dynamic and diverse industry.

SAWIA has a strong track record as an industry leader and innovator in many areas. SAWIA proactively represents members and the greater wine industry with government and related agencies in a wide variety of aspects of business in the wine sector.

SAWIA has specialty services in government relations and advocacy, industrial and employee relations, work, health and safety, environment and consumer wine education.



Brian Smedley
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Bentleys SA

Our advisory, accounting and audit services are strengthened by our expanding range of specialisations, which support the broad needs of individuals and businesses at every stage of the business lifecycle.

With specialisations that include strategic business advisory, tax consulting, R&D tax incentives, and self-managed super funds, we work with a diverse range of businesses and individuals to help them achieve their goals and get where they want to be.

Bentleys SA is a proud member of the Bentleys Network - a network of independent advisory and accounting firms, located throughout Australia, New Zealand and China - and Allinial Global - an international association of consulting and accounting firms.

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SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

South Australian Wine Industry Association (SAWIA)

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SAWIA is a state industry association made up of members who are wine producers and wine grape growers that pay an annual voluntary membership fee to access:

- Representation and leadership
- Advice and information
- Products and services
- Promotion and market opportunities